Congressional Closeup by William Jones

S&L crisis is worse than 'experts' thought

In testimony before the House Banking Committee on Aug. 3, L. William Seidman, chairman of the Federal Deposit Insurance Corporation (FDIC), said that $50 billion would be needed this year to bail out insolvent savings and loan institutions.

This estimate put Seidman at odds with Danny Wall, the chairman of the Federal Home Loan Bank Board, the institution responsible for insuring savings and loan associations, who estimated the cost at $30.9 billion. Seidman also contradicted Wall by saying that the situation in the Southwest was getting worse, not better, as Wall had maintained. Seidman's estimate was that it was "getting worse at something like $1 billion a month." The cumulative problem, according to Seidman, is "just under $50 billion."

Others are saying that the total sum of a bailout would have to be in the order of $100 billion.

Seidman was heavily criticized by members of the Banking Committee for the FDIC bailout of First RepublicBank of Dallas, which was taken over by the North Carolina bank NCNB. In this deal, the FDIC put up $4 billion and will own 80% of the new bank, while NCNB will invest $220 million and own 20% of the new company. Rep. Toby Roth (R-Wis.) criticized the venture as "a sweetheart deal born in a crisis." With regard to the $50 billion sum designated by Seidman as the cost of the savings and loan's dilemma, Roth commented, "There isn't enough money in Washington to do that."

Such an amount would indeed far exceed the combined resources of the FDIC and the Federal Savings and Loan Insurance Corporation (FSLIC). Two chairmen of the bank board, Jay Janis and Richard T. Pratt, told the Senate Banking Committee that some form of a taxpayer bailout would be inevitable. In testimony before the Senate Banking Committee on Aug. 3, Undersecretary of the Treasury George D. Gould also put the sum of an S&L bailout at $50 billion, but rejected having the taxpayer foot the bill, calling such a proposal a "we-pay-as-they-go" plan.

Sen. William Proxmire (D-Wis.), chairman of the Senate Banking Committee, said that he saw "no way we can avoid some kind of hit on the Treasury." He hopes, however, to stop the insolvent institutions from piling up further losses, by banning them from taking more deposits or making more loans, and is considering introducing legislation that would ban state-chartered institutions with federal deposit insurance from taking advantage of more liberal regulations in certain states.

Gould supported the Proxmire plan, but suggested that Congress increase the borrowing authority at the FSLIC from last year's $10.8 billion to $15 billion.

Meese: No 'malaise' at Justice Department

Responding to accusations made by Arnold Burns, former deputy attorney general, that the Justice Department under Attorney General Edwin Meese was in a "deep malaise," Meese responded with a list of accomplishments of the department during his tenure as attorney general.

Burns and his sidekick, former DoJ Criminal Division chief William Weld, quit their jobs with great fanfare in March, when they lost a bid to oust Meese from the department.

In one of his last appearances as Attorney General, on Aug. 3, Meese cited the fact that the DoJ had "convicted and won a sentence of life without parole for one of the most powerful and notorious drug traffickers" in Colombia, Carlos Lehder Rivas. Meese called the claims of Burns and Weld "certifiably false bits of conventional wisdom," adding that the "foolishness of this conventional wisdom is apparent to all who have read beyond the headlines."

On Aug. 4, the Senate Judiciary Committee approved the nominations of the successors to Burns and Weld on a voice vote. The names of Harold Christensen, the acting deputy attorney general, and Edward S.G. Dennis, Jr., the acting head of the Criminal Division, were forwarded to the full Senate for a final vote, which is expected later in the month. The committee also voted to approve the nomination of Francis A. Keating II to replace Associate Attorney General Stephen S. Trott, who had resigned earlier to become a federal judge.

Senate votes up protectionist trade bill

On Aug. 3, the Senate passed by a vote of 85-11 what the *New York Times* characterized as "the most sweeping trade bill in a generation." The bill gives the President broader powers to retaliate against nations found to engage in "unfair trading practices." It permits the President, in certain circumstances, to block foreign takeovers, if he has evidence that they would "impair national security."

The bill bars foreign securities firms from being primary dealers in U.S. government securities unless U.S firms gain, within a year, equal footing with local firms to handle their governments' securities. It also imposes sanctions against Japan's Toshiba Corp., in retaliation for the sale of sensitive submarine technology to the Soviet Union by one of Toshiba's subsidiaries. The bill is meant to increase pressure on foreign nations whose imports to the United States will suffer as a result. "There will be some disappointment tonight in Germany and Japan," said Sen. Lloyd Bentsen (D-Tex.), one of the authors of the bill.

The protectionist legislation has indeed created an uproar among the United States' major trading partners. Japan's Foreign Minister Sosuke Uno has called on President Reagan to veto it. Prime Minister Noboru Takeshita termed the U.S. action "unfortunate," citing its "protectionist undertones." A senior Taiwanese trade official said, "We will regret it if President Reagan signs the bill." The South Korean Foreign Ministry also termed the bill protectionist, and said that, if enacted, it would seriously hurt the free-trade system. West Germany's economics minister, Martin Bangemann, appealed to the Reagan administration to implement the policies outlined in the measure "with as much restraint as possible."

Foreign critics have also complained that the bill leaves the judgment of fairness and unfairness in international trade matters solely to American authorities.

Senate Democrats agree on aid plan to Contras

Senate Democrats agreed on Aug. 3 on a plan to provide the Nicaraguan Contras with $27 million for food, clothing, shelter, and medical supplies. They ruled out, however, any money for arms and ammunition, except under carefully circumscribed conditions and a vote by both Houses of Congress. The plan, a product of nearly a week of secret negotiations among a dozen senators, is considered a breakthrough for the Democrats, because it has the backing of liberal and conservative members of the party who have long been at odds over arming of the Contras.

Sen. Robert Dole (R-Kan.) called the Democrats' proposal a "capitulation," saying that it was "hardly a starting place." A Republican plan includes the same amount of money for humanitarian aid, but it also earmarks $20 million for arms and ammunition that could be released after Sept. 1, if both the House and Senate vote approval at that time.

The rival plans could provoke a Senate battle over the issue, a battle which could become even more partisan now that President Reagan has vetoed the Defense Authorization bill. The only condition under which the Democrats would permit a vote on military aid, is if the President certifies that the Nicaraguan government has created "an emergency situation" in Central America that has "a critical impact on the peace and stability of the region." Both Houses would then have to approve the President's certification.

President Reagan vetoes defense bill

President Reagan on Aug. 3 vetoed the Defense Authorization bill for next year, charging that the Democratic Congress had filled the bill with "unilateral concessions" to the Soviet Union. The move is seen as a politically motivated effort to boost the standing of George Bush's presidential campaign among pro-defense conservatives, who are already angry at the administration's arms control deals with the Russians.

The President said he was especially concerned that the bill would slash funding for the Strategic Defense Initiative. "The bill would signal a basic change in the future direction of our national defense—away from strength and proven success and back toward weakness and accommodation," the President said. Reagan said decided to veto the bill even though there was no disagreement with Congress on its total price tag of $299.6 billion. Even some leading Republican senators and Defense Secretary Frank Carlucci favored signing the measure.

The most rankling provision of the bill is that which would make deep cuts in space-based defense systems, while mandating higher spending levels for the ground-based elements of President Reagan's SDI. The President also objected to cuts in the new system of basing MX missiles on mobile railroad cars, from the originally planned $793 million to $250 million.

The bill's congressional supporters concede that they don't have enough votes to override the veto and probably won't have enough time to pass a new authorization measure for the fiscal year starting Oct. 1. Instead, the Pentagon budget will most likely be set in the Defense Appropriations bill, and the Democrats will try to attach policy provisions from the vetoed Defense Authorization bill to the Defense Appropriations bill. (An authorization bill defines programs the government can carry out and sets funding ceilings, while an appropriations bill allocates money.)